



# Strategic Management

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## About the Tutorial

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Strategic Management is basically a continuous process of identifying and describing the strategies of an organization, which managers use for achievement of better performance and gaining competitive advantage for the organization.

This tutorial deals with the basic concepts in strategic management, covering some of the important theories and related examples associated with the topic.

## Audience

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This tutorial is prepared keeping in mind the need of beginners who are keen on taking up management career to help them understand the basics of Strategic Management. For all other enthusiastic readers, this tutorial is a good learning material.

## Prerequisites

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We assume the reader has a basic knowledge of management concepts. Analytical thinking and strategic thinking are a plus.

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## Part 1: Mastering Strategy





## Common Approaches to Strategy

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### Richard P. Rumelt

Rumelt's definition of strategy includes the following steps:

- **Diagnosis:** What problem needs to be addressed? How do the vision, mission and objectives of a firm imply its actions?
- **Guiding Policy:** What according to the firm's approach will be the framework to solve the problems?
- **Action Plans:** How would the operations look like (in detail)? How can the processes be enacted to be in sync with the policy guidelines and to address the issues available in the diagnosis?

### Michael Porter

In 1980, Michael Porter provided the following four key elements that needs to be considered while forming a competitive strategy. The elements are:

- SWOT, especially the strengths and weaknesses of the firm
- Ethical points or personal values of key executives (i.e., management or the board)
- The industry's opportunities and threats
- Broader societal and stakeholder expectations

### Henry Mintzberg

Mintzberg hypothesized five basic approaches, popularly known as 5Ps that can help in developing a robust business strategies.

- **Strategy as plan:** Strategy is a directed course of action to reach the intended set of goals; these are similar to the various strategic planning concept.
- **Strategy as pattern:** Strategy here emerges from a consistent pattern of past organizational behavior. A strategy is realized over time rather than being planned or intended.
- **Strategy as position:** This includes locating the brands, products, or the companies within the market and industry depending on the conceptual framework of the firm's consumers or other stakeholders.
- **Strategy as ploy:** This is a specific manoeuvre and manipulation intended to outwit a competitor.
- **Strategy as perspective:** This kind of strategy is based on the "theory of the business" or it may be a natural extension of the given mindset or ideological attributes of the organization.

## 2. Types of Strategies

In a stable and predictable environment, strategic planning can enable an organization to achieve, manage and maintain success. But in real-world situations, only a few organizations and their executives experience a perfectly stable and predictable situation. That is why it is important to understand the concepts of intended, emergent, and realized strategies. Similarly, deliberate and non-realized strategies are important as well.

### **Intended Strategy**

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An intended strategy deals with the intentions of the organization. It is the strategy that an organization in the market hopes to execute. Therefore, intended strategies are often described in detail in the organization's strategic plan. A strategic plan made for a new firm is known as a business plan. This plan is a rough strategy that intends to keep the organization on track. It is, therefore, an intended strategy.

#### **The FedEx Intended Strategy**

Frederick Smith, an undergraduate student at Yale in 1965, had the task to prepare a business plan for a company as an assignment. His plan was of a courier service. Smith had described a new delivery system made effective by shipping the packages via a central hub and then ship these packages to their destinations.

Smith liked the idea so much that he started Federal Express (FedEx) that followed the business plan he had prepared as a project. Today, Frederick Smith has a wealth of over \$2 billion, and FedEx is the eighth of World's Most Admired Companies as described by *Fortune* magazine. So, we can say that Smith's intended strategy has worked out much effectively than even he could have dreamed.

### **Emergent Strategy**

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An emergent strategy is the one that emerges with time. It is an unplanned strategy that is created by an organization while acting in response to the various unexpected threats, opportunities and challenges. Emergent strategies are also dynamic in nature. Emergent strategies may result in both success and failure depending on the effectiveness of the strategy. Following is an example of failed emergent strategies.

#### **Failure of FedEx's ZapMail Emergent Strategy**

In the mid-1980s, FedEx drifted away from its intended strategy to focus on package delivery to monetize from a new and an emerging technology: the facsimile (fax) machines. FedEx developed a new service, known as ZapMail, where documents were faxed between FedEx offices and then delivered to customers' offices. The ZapMail system had been plagued by technical glitches that only frustrated the customers. ZapMail was discontinued before long, and the company lost hundreds of millions of dollars.

## Realized Strategy

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A realized strategy is a real and practical strategy. It is the strategy that a firm actually follows. Realized strategies are often a by-product of an organization's intended strategy (i.e., the firm's plans), the firm's deliberate strategy (i.e., the portions of the intended strategy that an organization continues to pursue over time), and its emergent strategy (i.e., what the firm does in response to unexpected opportunities and challenges).

In most other cases, however, firms' original intended strategies are lost during its journey. The abandoned sections of the original and intended strategy are known as **non-realized strategy**. Following is an example of successful non-realized strategy.

### Success of Non-realized Strategy at Avon

David McConnell was an aspiring and struggling author looking to sell his books. He decided to offer complimentary perfume with his books. McConnell's books never tasted success, but his perfumes became popular. The California Perfume Company was born, which is now known as Avon. For McConnell, a non-realized strategy to become a successful writer never took shape, but through Avon, a very successful realized strategy evolved.

### The Social Network

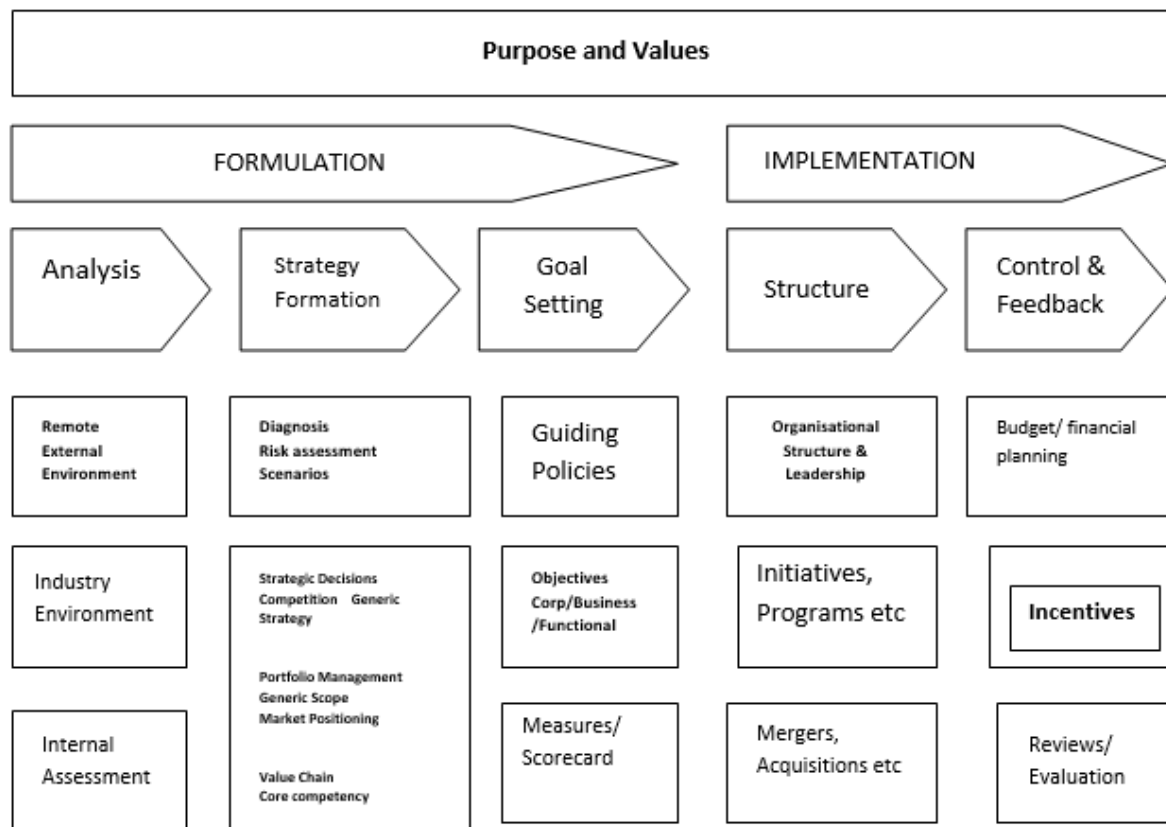
Facebook owner Mark Zuckerberg's original concept in 2003 was mediocre. He created the "FaceMash" where the attractiveness of young women could be voted on. Later on it became an online social network called The Facebook that was for Harvard students only.

It had become surprisingly popular, and was transformed into Facebook, to be used by everyone. Facebook's emphasis on building a friends' circle is different from Zuckerberg's original low-spirited concept. In fact, Zuckerberg's emergent and realized strategies turned out to be far more effective than the intended strategy.

# 3. Strategic Management Process

Strategic management is a process of analyzing the major initiatives that contain resources and performance in external environments, which a firm's top management manages on behalf of the company owners.

The following diagram illustrates the five important steps of strategic management process.



**Strategic Management Framework**

## The Five Steps of Strategic Management

Strategic management is a very large, complicated, and always-evolving endeavor. Therefore, it is handy to group it into a set of solid steps to describe the process of strategic management. The most common and used frameworks of strategic management include five steps, grouped in two general stages: Formulation and Implementation.

### Formulation

- **Analysis** – Analysis involves comprehensive market, financial and business research on the external and competitive environments. The process includes

conducting Porter's Five Forces, SWOT, PESTEL, and value chain management analyses and combining expertise in each industry that are part of the strategy.

- **Strategy Formation** – After analyzing internal and external environments, the organization arrives at a generic strategy (for instance, low-cost, differentiation, etc.) that is based upon the value-chain implications. It is done for deriving and maximizing core competence and prospective competitive advantages.
- **Goal Setting** – Goal setting is the next step of strategy formation. As the defined strategy is in hand, management now tends to find out and communicates the goals and objectives of the company that are linked to the predicted results, strengths, and opportunities.

## Implementation

- **Structure** – The implementation phase has the basic function of structuring the management and operational processes. As there is a strategy in place, the business now wants to solidify the organizational structure and leadership patterns (making many changes if required).
- **Feedback** – Feedback is the final stage of strategic management process. In this final stage of strategy, all of the budgetary figures are collected and disseminated for evaluation. Financial ratios calculation and performance reviews are delivered to relevant managers, executives and concerned departments.

## Part 2: Strategic Leadership

# 4. Organization Specifics

Strategic management is a continuous process. It starts with defining the vision, mission, objectives, and goals of the organization.

## Vision

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Vision stays at the top in the major hierarchy of strategic intent. It explains what the organization ultimately wants to achieve in the long term.

John Kotter defines vision as, "It is a statement of the organization in the future."

Alex Miller and Gregory Dess defined vision as, "the category of intentions that are broad, all-inclusive and forward thinking."

## Advantages of Vision

A few benefits accruing to an organization having a vision are as follows:

- Vision fosters the idea of experiment.
- Vision promotes long-term thinking about the organization.
- Visions is one of the major factors to foster risk taking.
- Vision makes an organizations more competitive, original and unique.
- Good vision is a factor of representation of integrity.
- Vision inspires and motivates the people working in an organization.

## Mission

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Mission statements are responsible for the role an organization plays in the society.

A few definitions of mission are as follows:

David Hunger and Thomas Wheelen are of the view that mission is "the purpose or reason for the organization's existence."

John L. Thompson states that mission is "the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy."

According to David F. Harvey "A mission provides the basis of awareness of a sense of purpose, the competitive environment, degree to which the firm's mission fits its capabilities and the opportunities which the government offers."

### MISSION STATEMENT: EXAMPLES

**Apple:** "Apple designs Macs, the best personal computers in the world, along with OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple has reinvented the mobile phone with its revolutionary iPhone and App store, and is defining the future of mobile media and computing devices with iPad."

**Ranbaxy Industries:** "To become a research based international Pharmaceuticals Company."

## Objectives and Goals

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Objectives tell us about the ultimate end results the company wants to accomplish by making a strategy for a selected duration of time. Goals include a broad category of financial and non-financial issues that a company wants to achieve in a given amount of time. Objectives are the ways that specify how the goals of the company shall be achieved. Importantly, objectives are the manifestation of goals even when it is not stated.

### Differences Between Goals and Objectives

- Goals are a broad category while objectives are succinct and specific.
- Goals are usually set for a relatively longer future than objectives.
- Goals are usually actions that are more influenced by the external environment.
- Goals are never quantified but objectives are always quantified.



# 5. Performance Issue

**Organizational performance** is a multidimensional concept. For businesses, organizational performance means how much an organization matches its vision, mission, and goals. Assessment of organizational performance is core to strategic management. Managers must understand organization's performance to learn whether strategic changes, if any, are needed.

Two important considerations for assessment are:

- Performance measures and
- Performance referents

**Performance measures** are a kind of metrics with which organizations can be gauged. Profits, stock price, and sales performance are the common factors to better understand how well an organization is competing in the market, and to predict future results.

**Performance referents** are also important. It is a benchmark or standard used to match an organization's position along a performance measure.

## The Balanced Scorecard

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Professor Robert Kaplan and Professor David Norton of Harvard University developed a tool called the "balanced scorecard." The balanced scorecard tracks a small number of key measures that collectively refers to four dimensions:

- Financial measures
- Customer measures
- Internal business process measures
- Learning and growth measures

### Financial Measures

Financial performance measures are linked to organizational effectiveness and profits. Examples include financial ratios such as return on assets, return on equity, and return on investment. Some other very common financial measures are profits and stock price. Such measures help us assess and answer the key question "How do shareholders see us?" Financial measures are core to a business's existence and have long been a matter of interest to senior managers and investors.

### Customer Measures

Customer performance measures are customer attraction, satisfaction, and retention. These measures answer the key question "How do customers see us?" Examples may be the number of new customers added and the percentage of repeat buys by customers.

## Internal Business Process Measures

Internal business process performance measures are linked with organizational efficiency. They help answer the key question "What must we excel at?" Examples are time of manufacturing the goods or delivering a service. The time an organization takes to build a new product and make it available in the market is also an example of this measure.

## Learning and Growth Measures

Learning and growth performance measures relate to the future. Such measures offer an insight to answer the question, "Can we continue to improve and create value?" Learning and growth measures usually focus on the aspect of innovation. An example of this measure is the number of new skills learnt by employees every year.

## The Triple Bottom Line

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Ralph Waldo Emerson said, "Doing well is the result of doing good. That's what capitalism is all about." The balanced scorecard offers a good framework to help executives understand an organization's performance; the other frameworks focus on areas, including social responsibility.

One such framework, the triple bottom line, emphasizes the three Ps, **people** (ensuring that the actions are socially responsible), the **planet** (making sure it promotes environmental sustainability), and traditional organizational **profit**.

**Starbucks** has responsibility towards the planet, which it established by creating an environmental mission statement. Its mission statement states - Starbucks is committed to a role of environmental leadership in all facets of our business. For the "people" bottom line, Starbucks purchases coffee beans from farmers who work under good conditions and are well paid. Nonetheless, the firm wants to be profitable as well.

# 6. The Top Leadership

The word 'celebrity' is usually used for actors, sports stars, and musicians. However, in the modern era of mass media, some CEOs, such as Bill Gates, Richard Branson, Martha Stewart, and Donald Trump, have also achieved celebrity status.

## CEO Celebrity – Pros & Cons

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CEO celebrity is an intangible asset for the firm and may often lead to increased opportunities offered to the firm. Hiring or managing a celebrity CEO may grow stock price, enhance the firm's image, and motivate employees and make other stakeholders content.

There are also disadvantages associated. Increased celebrity CEO status means the gaps between real and expected firm performance will be magnified. Moreover, if a celebrity CEO is unethical, wrong or illegal, chances are that the CEO's firm will attract more negative media coverage which will raise problems.

## Types of CEOs

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There are various types of CEOs. The most common are the following:

### Icons

Icons are the CEOs who possess both fame and high reputation. The icon CEO is attributed to the combination of style and substance in the performance of CEO's job responsibilities. Mary Kay Ash, **Richard Branson**, Bill Gates, and Warren Buffett are Icons.

### Scoundrels

CEOs who have high relative fame but low reputation are called scoundrels. These CEOs are quite well known but at the same time, they are enough vilified. The late **Leona Helmsley** was a prototypical scoundrel.

### Hidden Gems

Hidden gems are CEOs who do not have much fame but manage high positive reputation. These CEOs stay in relatively higher obscurity while managing and leading their firms to success. Their skills and competencies are known to those who are in their own firm or are competitors. An example of hidden gems type of CEO is **Anne Mulcahy**.

## Silent Killers

Silent killers are overlooked and ignored sources of harm to their firms. The poor ethics or incompetence of the silent killers may be detected very late. It's a fact that the silent killers are sometimes worse than scoundrels.

### **THE MOVIES' STRATEGY: Iron Man**

Has Tony Stark gone crazy? Tony Stark, CEO of Stark Industries, surprised his shareholders, employees, and the world when he changed Stark Industries' mission from being one of the world's leading weapons manufacturers to being a socially responsible, clean energy producer.

## Celebrity Rehabilitation

For celebrity CEOs, their speech and acts can and often grab the front page of a national daily newspaper or popular prime time nightly news. Thus, they need to be much responsible and conscious about the implications of everything that they say or do in all situations. It is the responsibility of the CEO to maintain a high level of integrity and responsibility at all times.

### **STEVE JOBS'S DIG ON BILL GATES**

Author Walter Isaacson quotes Steve Jobs saying of Gates in Jobs' biography:

"Bill is basically unimaginative and has never invented anything, which is why I think he's more comfortable now in philanthropy than technology. He just shamelessly ripped off other people's ideas." Gates tactfully rebutted the scathing comments (Kerns, 2011).

# 7. Entrepreneurial Orientation

In the business and academic world, the level to which a firm is entrepreneurial is commonly known as its “entrepreneurial orientation” (EO). The EO concept provides a big impetus in focusing not only on entrepreneurship, but expanding from management and reaching marketing to health care.

EO is measured by the following major factors.

- **Risk-taking:** Risk-taking is a key characteristic linked with entrepreneurship. It is the risk that individuals take by working for themselves rather than being employed. It is the tendency to take the uncharted path of being avant-garde in building a strategy.
- **Pro-activeness:** Pro-activeness illustrates the nature of entrepreneurial actions to gauge the future opportunities, both in regard to products or technologies and in sync with markets and consumer demand.
- **Innovativeness:** Innovativeness refers to the introduction of different types of products or services in the market. Entrepreneurs are innovative by the very fact of their entry into the market. In the concept of EO, innovativeness mainly emphasizes the importance of technological leadership to the company, and also some changes in the company’s product lines.
- **Competitive aggressiveness:** Competitive aggressiveness is a company’s action of engaging with its competitors. It distinguishes between the companies that shy away from direct competition from other companies that aggressively competes in their competitors’ target markets.
- **Autonomy:** Autonomy refers to the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion without being demotivated or dominated by overly stringent organizational bottlenecks.

## Insights on Effectiveness of EO

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The purpose of empirical research on EO by Miller was to “show the merits of a configurational approach to the study of organizations” citing examples of how entrepreneurship has different drivers and different actual manifestations in different industries.

Studies have revealed a broad range of factors that can influence how EO relates to company performance. They contain internal factors such as technical and market knowledge within the firm, and external factors such as industry dynamics.

Different studies have found differences between different cultural contexts and other external factors. From a policy-making and strategic perspective, EO can create as well as

destroy the very essence of the firms' intent to build a successful market around its products or services.

The original question raised by Miller – How does entrepreneurship differ in different firms? And a logical extension thereof - may provide the clue to the very idea of entrepreneurship and EO.

If research could establish that a strong EO is beneficial for companies, policy makers and program makers can target interventions at the companies which will be most beneficial from a stronger sense of EO.

## Part 3: The External Environment

## 8. Organization & Environment

The external environment consists of the factors outside the company that influence the company's ability to function. Some sections of the external elements are manipulated and managed by company marketing, but the others need the organization to make adjustments.

It is important to monitor the core components of a company's external environment, and keep a close watch at all times. If the company cannot judge its external environment, it may fail to meet the market demands.

### **Organization's External Environment - Five Components**

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Following are the five components of external environment:

#### **Customers**

The customers can be attempted to influence, through marketing and strategic release of corporate information. However, finally a company's relationship with the clients is based on finding ways to let them purchase the services or products. Market research is the tool for determining the effectiveness of the company's marketing communication, and to make a decision about what changes should be made to forthcoming marketing programs to improve sales.

#### **Government**

Government regulations, especially related to product development, packaging and shipping play an important role in the cost of doing business. It also influences the ability to expand into new and emerging markets. The government may enact new regulations on how a company must package the products for shipment, which can increase the unit costs affecting the profit margins. International legal rules create processes that the company must follow to get the product marketed in foreign markets.

#### **Economy**

The company must be efficient at monitoring the economy and reacting to it, rather than trying to shape or manipulate it according to its needs. Economic factors affect how the products are marketed, the amount of money spent on business growth, and the nature of target markets the company will pursue.

#### **Competition**

Competition affects how a company does business and how it addresses the target market. It is a strategy to find markets with less competition, or the company may decide to compete directly in the same target market. The success and failure of competitors affect the marketing planning, as well. For example, if a long-time competitor decides to stop marketing due to financial losses, then it would be important to adjust the planning to take advantage of the condition.



## **Public Opinion**

Scandals can be harmful to the organization's image. The public perception about an organization can affect sales. It may go down if it's negative, or it can boost sales with positive company news.

An organization can influence the public opinion by releasing strategic information through press release. However, it is also very important to monitor and judge public opinion to attempt and defuse potential issues before they go out of control.

# 9. Analyzing the External Environment

External environment analysis is an important part of strategic management.

## PESTEL Analysis

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PESTEL analysis includes Political, Economic, Social, Technological, Environmental and Legal analysis. It is an external environment analysis for conducting a strategic analysis or carrying out market research. It offers a certain overview of the varied macro-environmental factors that the company has to consider.

- **Political factors** analysis is related with how and to what extent a government interferes in the economy. Specifically, political factors include tax policy, labor law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also be related with goods and services which the government allows (merit goods) and those that the government does not want to allow (demerit goods). The government can have a great influence on the overall health, education, and infrastructure of a country.
- **Economic factors** contain factors such as economic growth, interest rates, exchange rates and the inflation rate. These factors may have an influential effect on how the businesses operate and make decisions. For example, interest rates can affect the firm's cost of capital and thereby influence business growth and expansion. Exchange rates can affect the costs of export and the supply and price of imports.
- **Social factors** contain issues such as health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in the social factors may affect the demand for a company's goods and how the company operates. For example, ageing population leads to smaller and less-willing workforce (and increases the cost of labor). Moreover, companies may change various management strategies in sync with the social trends (such as recruiting more females).
- **Technological factors** include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

- **Environmental factors** are the conditions such as weather, climate, and climate change, which may especially influence tourism, farming, and insurance sectors. Growing awareness to climate change are increasing the interest in how companies operate and what products they offer; it is both creating new markets and damaging the existing ones.
- **Legal factors** include laws pertaining to discrimination, consumer affairs, antitrust, employment, and health and safety. These factors can affect the operations, costs, and the demand for the products. Legal factors can also influence the brand value and reputation of a company. They are increasingly paid more attention to in the current decade.

# 10. Judging the Industry

Judging the industry is an important strategic function. Without the proper understanding of the industry, it is impossible to take strategic decisions regarding the products and services.

## Market Size

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It is important to know how big the opportunity is and why it's worth going after. This means finding the number of customers and what are the revenue possibilities?

## Industry Forces and Trends

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Now you'll need to outline what's happening in the industry. PEST and Porter's analysis can help in this regard.

## PEST Analysis

- **P - Political factors:** What is the government's role?
- **E - Economic factors:** What is the state of the economy?
- **S - Social factors:** What are the trends, demographics, consumer attitudes, buying patterns and opinions?
- **T - Technological factors:** What is the effect of changing technological trends on your industry?

## Porter's 5 Forces Analysis

- **Threat of New Entrants:** How difficult (or easy) it is for someone to enter your industry? If it's very easy then it will be crowded with competitors.
- **Threat of Substitute Products (or Services):** If another product or service could decrease the demand or displace you, there is a risk.
- **Bargaining Power of Customers:** In terms of pricing and terms, how much power does your customer have? Are they organized to use the purchase power?
- **Bargaining Power of Suppliers:** If it's difficult or near impossible for you to switch, that means the suppliers have the upper hand.

- **Competitive Rivalry of the Market:** Factoring the first four forces, you can arrive at a good understanding of the playing field.

## Competition

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Once you've found the size of the market and gained knowledge about the competitors in the industry, you're going to have to start dropping names and point out your major competitors. For this, a SWOT analysis is important.

### SWOT Analysis

- **S – Strengths:** What do competitors have, i.e. technology, brand, people, or lean value chain?
- **W – Weakness:** Is there lack of experienced management, unreliable customer service, and poor customer retention?
- **O - Opportunities:** The advantages: Are there environmental trends or changes that may benefit them?
- **T – Threats:** What are the kind of threats that keeps the competitors worried?

## Generic Competitive Strategy

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- **Cost Leadership:** This refers to having the capacity to scale operations in order to offer lower prices.
- **Differentiation:** This is where your product or service offers something distinct than those of the current cost leaders and standing out based on the "newness" factor.
- **Segmentation:** It is about the focus on a very specific or "niche" target market and focus on building traction with a smaller market demand.

# 11. Mapping Strategic Groups

**Strategic Mapping** is a process to gauge the competition and relative position of an organization.

## **Market Perspective on Other Players**

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The concept, strategic group, used in strategic management, groups organizations within an industry that have similar set of strategies or similar business models.

To be profitable and make a difference in the market, take the top five other players in your strategic group. Make a list. Develop a profile for each, pinpointing the following:

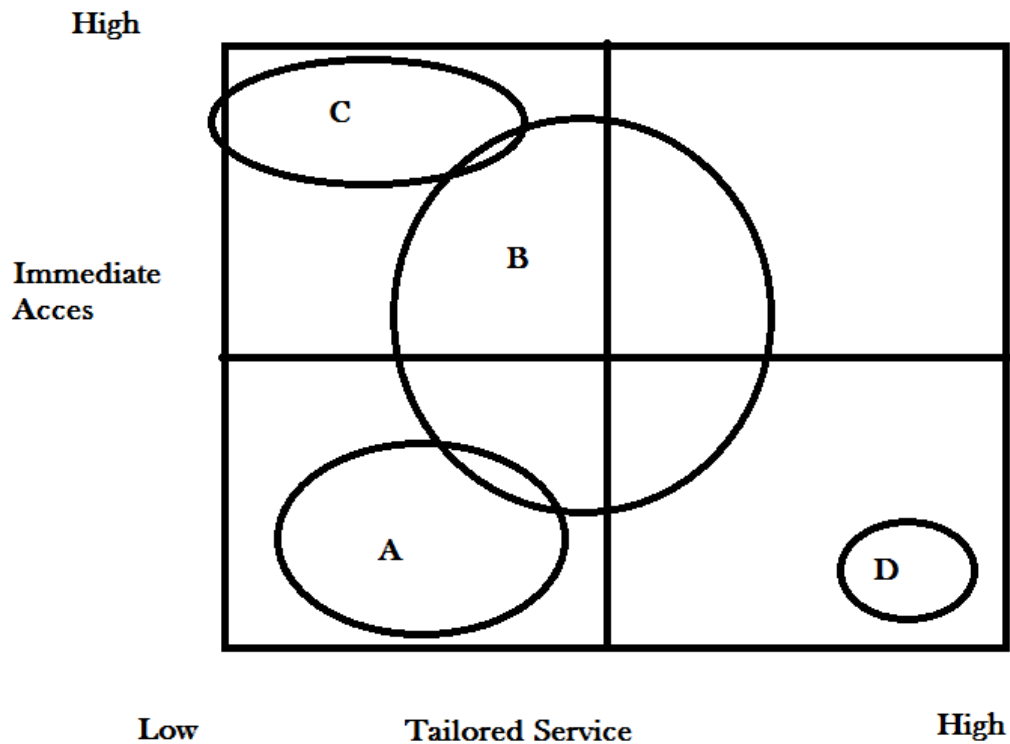
- What services are offered by them?
- Which beneficiary group are they working with?
- What is their probable impact?
- What are their future plans? How the relationship with them lets you provide better services?

Apart from knowing these players, it is also very important to know about the marketplace the group players work in and how this could impact the future strategies. Think about the two most important factors driving success (or ensuring outcomes) for the users or beneficiaries of your organization or services. Following are examples of some factors:

- The ability to access the service immediately
- One stop service for all the needs
- A tailored service depending on their unique needs

After picking the top two factors as applicable, draw up a matrix showing each factor as shown in the following example.

## Example of Strategic Group Map



### Description of the diagram

The diagram shows a rectangle with four quadrants having 'Immediate access' on the y-axis and 'Tailored service' on the x-axis. Drawn in the appropriate position on the grid (with regard to these two factors) are the four other players. The size of the circle that represents each corresponds to their size in the marketplace.

### Create your own strategic group map

Place all the other players in your organization's strategic mapping group on this matrix. Draw a circle for each that offers idea about their relative sizes. Draw a circle for your organization there too. Are there any gaps? Are there any overlaps? Are there any options for change?

## Part 4: Organizational Resources



# 12. The Resource Based Theory

Resource-based theory contends that the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals.

## Types of Resources

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A resource is valuable up to which it helps a firm create unique strategies that capitalize on opportunities and diminishes threats. A resource is non-substitutable when alternative ways to gain the benefits the resource provides is impossible to get. A rare resource provides strategic advantages to the company which owns it.

Competitors find it hard to duplicate resources that are difficult to imitate. Some of these are protected by various legal means, including trademarks, patents, and copyrights.

Resource-based theory also focuses on the merit of an old saying “the whole is greater than the sum of its parts”. Strategic resources can be created by various strategies and resources, bundling them together in a way that cannot be copied. Distinguishing strategic resources from other resources is important. Cash is an important resource. Tangible goods, including car and home are also vital resources.

## From Resources to Capabilities

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The tangibility of a firm’s resource is an important consideration within resource-based theory. **Tangible resources** are resources that can have a physical presence. A firm’s property, plant, and equipment, as well as cash, are tangible resources.

In contrast, **intangible resources** are not physically present. The knowledge and skills of employees, a firm’s reputation, and a firm’s culture are intangible resources.

**Capabilities** are another key concept. Resources refer to what an organization owns, capabilities refer to what the organization can do. Capabilities often arise over time while the firm takes actions that build on its strategic resources.

Some firms develop a **dynamic capability**, where a company has a unique ability of creating new capabilities to keep pace with changes in its environment.

### Dynamic Capabilities of GE and Coca Cola

General Electric, for example, buys and sells firms to maintain its market leadership over time, while Coca-Cola is known for building new brands and products as the soft-drink market changes. Both of these firms are among the top fifteen among the “World’s Most Admired Companies”.

## **The Importance of Marketing Mix**

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Leveraging resources and capabilities to create desirable products and services is important. The marketing mix—also known as the four Ps of marketing—provides important insights into how to make customers convinced to purchase the goods and services.

The real purpose of the marketing mix is not to cheat but actually to provide a strong combination among the four Ps (product, price, place, and promotion) to offer the customers a useful and persuasive message.

# 13. Intellectual Property

Intellectual Property (IP) refers to creations of the intellect for which a right is assigned to the creators by law. The rights that protect trademarks cover music, literature, and other artistic works; discoveries and inventions; and words, phrases, symbols, and designs.

Intellectual Property (IP) concerns the creation of a knowledge-based product. One cannot "own" ideas in the head, they must be in a tangible form, such as drawings, reports, plans, or specifications. Then they are an intellectual property protected by laws.

## Patents

The creator must be identified, but the ownership may be assigned to someone else. If you invent something while in work term and the employer patents it, you are an inventor, but the employer owns the invention and patent (also applies to copyright).

## Contracts

Employer's IP policies, which are usually outlined in the employment contract are important. In many firms, employees sign a contract where all Intellectual Property rights are owned by the employer.

## Industrial Design Rights

An industrial design right protects the visual design of objects. An industrial design consists a shape, configuration or composition of pattern or color, or mix of pattern and color in 3D form that has an aesthetic value.

## Plant Varieties

Plant variety rights are the rights to commercially use a new variety of a plant. The variety must amongst others be novel and distinct.

## Trademarks

A trademark is a sign, design or expression which distinguishes products or services of a particular trader from similar objects of others.

## Trade Dress

It is characteristics of the visual appearance of a product or its packaging that signify the source of the product to consumers.

## Trade Secrets

A trade secret may be a formula, practice, process, design, instrument, pattern, or compilation of information which is not known or ascertainable.

## Recognizing the Contributors

Whoever owns the IP, contributors must receive appropriate recognition. In case of reports or drawings, the contributor's name should be included in the documents. However, for technical manuals, software, or advertising copies, it may be queer for the creator to be identified.

## Exceptional Cases

If you develop an invention while working on an employer's invention, disclose this information and have your invention excluded from the employment contract.

IP rights violation, also known as "infringement" of patents, copyright, and trademarks, and "misappropriation" of trade secrets, is a breach of civil law or criminal law, based on the type of intellectual property involved, jurisdiction, and the nature of the action.

### Copy, Right?

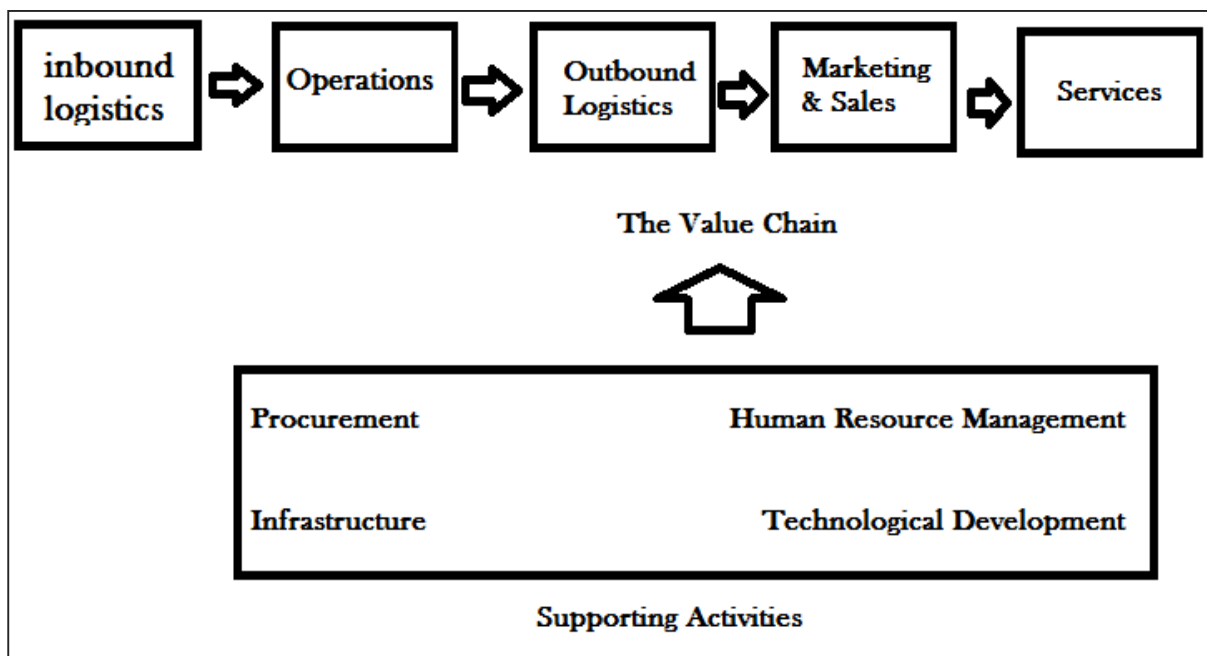
Trade in counterfeit copyrighted and trademarked works was a \$600 billion industry worldwide and accounted for 5–7% of global trade as of 2011.

# 14. The Value Chain

The **value chain concept** is based on the process view of organizations. It is an idea of considering a manufacturing (or service) organization as a dynamic system, made up of various subsystems each with inputs, transformation processes and outputs.

The inputs, transformations, and outputs require the acquisition and consumption of company resources, such as money, equipment, materials, labor, buildings, land, administration and management. The management process of carrying out value chain activities determines the costs and affects the profitability of organizations.

Most of the organizations in the real world engage in hundreds, even thousands of activities while converting its inputs to outputs. These activities are classified as either primary or support activities.



**Porter's Value Chain**

According to Michael Porter (1985), the primary activities are:

- **Inbound Logistics** – Inbound logistics refers to the terms with the suppliers and includes all of the activities needed to receive, store, and disseminate inputs.
- **Operations** – Operations refer to the entire activities needed to transform the various inputs into outputs (the products and services).
- **Outbound Logistics** – Outbound logistics include all sets of activities needed to collect, store, and distribute the output.

- **Marketing and Sales** – Marketing and sales include the activities to inform buyers regarding the products and services, induce the buyers to purchase them, and enable their purchase.
- **Service** – Service refers to those activities needed to keep the product or service functioning effectively after it is sold and delivered.

Secondary activities include the following:

- **Procurement** – The inheritance of inputs or the various resources for the firm.
- **Human Resource Management** – The activities involved in recruiting, training, improving, compensating and also dismissing personnel.
- **Technological Development** – The equipment, hardware and software, processes and technical knowledge involved in the transformation of inputs into outputs.
- **Infrastructure** – The functions or departments such as accounts, legal and regulative, finance, planning and executing, public affairs and public relations, government relations, quality management and general management.

# 15. Other Performance Measures

There are four types of performance measures:

- **Key Performance Indicators (KPIs)** says what to do to increase performance dramatically.
- **Key Result Indicators (KRIs)** offer an overview of the past performance. They communicate how management has done in a CSF or from a balanced scorecard perspective.
- **Performance Indicators (PIs)** provide an idea to the staff and the management what to do.
- **Result Indicators (RIs)** say about what the staff have done.

## Key Performance Indicators (KPIs)

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KPIs are a set of measures that focus on the aspects of organizational performance that are most needed for current and future success of the organization. There are a few KPIs in an organization (no more than ten), and they have certain characteristics.

Characteristics of KPIs:

- They are non-financial process of measures
- They are done frequently
- They are introduced by the CEO and the senior management
- They are recognizable by the staff
- They are an individuals' responsibility
- They affect the organization significantly
- They also have a positive influence on other measures

## Key Result Indicators (KRIs)

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KRIs are performance measures different from KPIs. KRIs include:

- Customer satisfaction
- Net profit before tax
- Profitability of customers
- Employee satisfaction
- Return on capital employed

## Performance Indicators and Result Indicators

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About 80 performance measures falling in between KRIs and KPIs are performance indicators and result indicators (PIs and RIs).

The performance indicators are important but they are not the key to the business. The PIs propel teams to align themselves to the organization's strategy. PIs, in fact, complement the KPIs and they are shown with KPIs on the organization, department and team scorecards.

Following are some PIs:

- Percentage increase in sales to the top 10% of customers
- Number of employees' suggestions implemented in the last 30 days
- Customer complaints from key customers
- Sales calls organized for the next one to two weeks
- Late deliveries to key customers

Following are some RIs:

- Net profit on key product lines
- Sales made yesterday
- Week's sales to key customers
- Debtor collections in week
- Bed utilization in week

### The 10/80/10 Rule of Performance Measures

An organization should have around 10 KRIs, up to 80 PIs and RIs, and 10 KPIs. No more than these are actually used, but in many cases fewer measures are enough.



# 16. Company Assets: SWOT Analysis

**SWOT Analysis** is a strategic planning technique that is used to evaluate the strengths, weaknesses, opportunities, and threats of a project or in a business entity. It involves finding out the objectives of the business venture or project, and also pinpointing the internal and external factors that are favorable and unfavorable to attain that objective.

SWOT analysis must begin with the definition of a desired result or objective. It is also sometimes incorporated into the strategic planning model.

- **Strengths:** Characteristics that give an advantage over others in the industry.
- **Weaknesses:** Characteristics that are a disadvantage.
- **Opportunities:** External chances to improve in the environment.
- **Threats:** External elements that could cause trouble for the business.

## SWOT Analysis Breakdown

### Strengths

Strengths must consider what the organization can do with the internal resources. Any asset of the firm could be classified as strength, but the extent of contribution to the competitive situation of the firm can fluctuate greatly. A reputed brand-name, popular customer service, and/or exclusive access to systematic supply chain network are strengths.

### Weaknesses

Any area in which the organization lacks strength is weakness. Poor product positioning, outdated production equipment, and poor customer service are weaknesses. High employee turnover that leads to loss of talent is a major weakness of the firm.

### Opportunities

In general, changes in the external environment that may uplift the company can be an opportunity to the firm. Weakening of competitors by a poor cash-flow position is an opportunity to capture market share. Similarly, changes in tax structure, progress in economic trends, or the passage of favorable laws are all opportunities.

### Threats

Threats stem from a deficiency of opportunities or from the strengths of competitors. Changes in consumer preferences, new competitor innovations, restrictive regulations, and unfavorable trade barriers are all examples of threats.

## Optimizing after SWOT

After completing the SWOT analysis, the company should be able to configure its overall position in the marketplace. This is an important step in strategic management. However, every opportunity cannot be pursued and every strength is not necessarily an advantage. The organization should choose the factors to exploit to take complete advantage of its position. Similarly, the organization should seek to minimize weaknesses and threats.

## Part 5: Business Level Strategies

# 17. Different Types

Business level strategies include the plans or methods a firm may use to conduct numerous functions in operating their business. More business strategies are required in case of large businesses since more departments with different business functions exist in them. However, small businesses may also adopt these strategies. Business-level strategies are usually used to provide guidelines for owners, managers and employees. The **five types of business level strategies** are:

## **Coordinating Unit Activities**

The coordination of all different individual unit activities found in a business is a common strategy. These unit activities may be differentiated by departments, sections of the department and individual job positions.

The coordination is usually done by a manager or supervisor. The manager is responsible to bring employees on the same platform and helping these individuals on accomplishing the various goals or objectives of the company. Allocating resources may also be a prime duty of the manager.

## **Utilizing Human Resources**

Utilization of the available human resources and the overall economy is a must for success. Some form of human labor to fulfil business goals and objectives is always needed. Companies usually develop a business-level strategy to make sure that the organization has sufficient employees to produce specific goods or services.

This business-level strategy is also meant to ensure that the right type of human labor is acquired. An analysis to see if skilled or unskilled labor is required to complete business functions is a common part of the strategy.

## **Developing Distinctive Advantages**

Distinctive core competencies or competitive advantages are essential for success of a company. Core competencies represent the activities or abilities that a company holds for better output than another company. These strategies may include acquiring economic sources cheaper than others, more efficient and effective production, unique goods or services and a cost-effective supply chain.

## **Identifying Market Niches**

Market niche identification usually includes economic analysis and finding a specific consumer demand that is unmet or where there is insufficient supply to fill the demand. Other niches may include modifying products, targeting specific demographic groups, etc.

### **Monitoring Product Strategies**

Review of business level strategies involved in the operation of an organization is a must. Review of the acquisition process, the equipment, and the business facilities as well as administrative costs for sufficient rate of return are required to stay on track. Reviewing business level strategies help to remain flexible in business and make necessary changes as and when needed.

# 18. Cost Leadership

**Cost leadership**, a concept by Michael Porter, illustrates a method to affirm and manage the competitive advantage. Cost leadership, basically, refers to the lowest cost of operation in the industry.

The cost leadership is a result of company efficiency, size, scale, scope and accumulated experience (the learning curve). A cost leadership strategy aims to utilize scale of production, well defined scope and other economies such as a good purchasing strategy, producing highly standardized products, and using modern and current technologies.

In the recent years, an increasing number of companies have chosen a strategic mix to attain market leadership. These mixed patterns consider simultaneous effects of cost leadership, superior customer service and product leadership.

**Price leadership** is a different concept. A company may become lowest cost producer, yet not the cost leader. A company can have a higher than average profitability in case of price leadership. The cost leaders do not compete only on price and are very effective in competition, having a low cost structure and management.

## Examples

**Ikea** - The Swedish company, Ikea, has revolutionized the furniture industry. Ikea sources its products in low-wage countries and offers basic level of service. Ikea does not assemble or deliver furniture. While this is a bit more complex than traditional retailers, it allows Ikea to offer lower prices and attain cost leadership.

**Wal-Mart** - Wal-Mart Stores, Inc. has a strategy of everyday low prices to attract customers. The idea of everyday low prices is to consistently offer products at an attractively cheaper rate than competitors, rather than depending only on sales. Wal-Mart has a large scale and efficient supply chain. They also source products from cheaper yet better domestic suppliers and from the low-wage foreign markets. Therefore, the company can sell their items at low prices, profiting off thin margins but high volume.

**McDonald's** - The restaurant industry runs on low margins where it is difficult to compete with a cost leadership marketing strategy. McDonald's has a strategy of offering basic fast-food meals at low prices. They have a division of labor that allows it to recruit and train freshers rather than trained cooks. It also relies on few managers. These savings in various processes allow the company to offer its foods for bargain prices. McDonald's, the global restaurant chain, uses a distinctive hiring strategy to be the cost leader.

**Southwest Airlines** - The airline industry profits come from charging high ticket prices. Southwest Airlines challenged this concept by marketing itself as a cost leader. Southwest offers the lowest prices possible by being more efficient in its operations. They minimize time planes spend on the tarmac in order to keep them flying and to keep profits up. They also offer less thrills to customers, but is able to pass the cost savings.

# 19. Niche Differentiation

A differentiated business strategy is one of the two basic types of competitive strategies that companies use as a strategy. In essence, companies can take advantage of one of the many possible ways to differentiate themselves from competitors to drive business.

## Differentiation

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Differentiation means making an organization or brand stand out by providing unique features, benefits, services or other elements of your solution. This strategy refers to identifying the most important criteria used by buyers in the market and then designing product, service or other offerings in the best possible way to meet those criteria.

Offering the finest-quality product, the best solution, an exclusive or modern feature or tool, or organic materials are examples of differentiation. Differentiation strategies are considered along with higher price points than low-cost providers as more money is needed to offer a better overall solution. Depending on the value-added elements before going for the low-cost options is key.

## Differentiation Focus

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Differentiation focus relies on one or a small number of target market segments. In some industries, different market segments demand different types of product or service. With a differentiation focus, your business focuses on one or two given segments with which the company's strengths best align. This more-focused approach allows maximizing the efforts in marketing to the selected segments and lets the organization to invest the resources to convince the segments of your brand's superior benefits.

## Low Cost Limitations

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Usually, there is always more room for differentiated business strategies than for low-cost strategies. Ultimately, just one company emerges as the true low-cost provider in an industry. Being the second-lowest or third-lowest provider does not make the game change. In some industries, several companies compete to be low-cost providers, however, only one company wins out or limited profits are spread around. Thus, the companies that do not want to engage in a high-risk battle of cost leadership must opt for a differentiated approach.

## Porter's Model

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Michael Porter offers a mention of differentiation in his famous five forces of competition model by noting four basic competitive-advantage strategies. They include differentiation and differentiation focus, which are two similar but distinct differentiation strategies. Porter noted five competitive forces from rivals, new entrants, suppliers, buyers, and substitutes.



## 20. Focus Strategies

Cost leadership strategy and differentiation strategy share one important characteristic: both are used to attract customers in general. The policies to appeal to broad markets can be contrasted with strategies that target a relatively narrower niche of potential customers. These strategies are known as focus strategies and they are applicable to both cost leadership and differentiation.

### **Focused Cost Leadership Strategy**

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A focused cost leadership strategy needs to compete based on price to target a niche market. An organization following it may not charge the lowest prices in the industry. Instead, they may charge low prices relative to other organizations in the market.

The nature of the narrow target market changes across organizations that use a focused cost leadership strategy. Sometimes, the target market is defined by demographics.

In all other instances, the target market is described using the sales channel.

#### **FOCUSED COST LEADERSHIP STRATEGY: AN EXAMPLE**

Papa Murphy's sells 'cook at home' pizzas. These inexpensive pizzas are baked at home. So, the law permits Papa Murphy's to receive food stamps as payment. This allows Papa Murphy's to attract customers that might not otherwise be able to afford a prepared pizza.

### **Focused Differentiation Strategy**

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A focused differentiation strategy provides unique features that fulfil the demands of a narrow segment of market. Some firms using a focused differentiation strategy use the efforts on a particular sales channel, such as selling products online only. Others target specific demographic niches.

A differentiation strategy includes providing unique features to attract a variety of customers. However, the need to satisfy a narrow market demand means that the desire of uniqueness is taken to the "next level" by firms in a focused differentiation strategy. Therefore, the unique features of a focused differentiation strategy are often specialized.

#### **FOCUSED DIFFERENTIATION STRATEGY: AN EXAMPLE**

Mercedes-Benz is into cutting-edge technology, styling, and safety innovations. This appeal has been available for many decades. In 1970, acid-rocker Janis Joplin recorded a song called "Mercedes Benz" that highlighted the automaker's allure. Since then, Mercedes-Benz has used the song in several television commercials, including during the 2011 Super Bowl.

### **Advantages of the Focused Strategies**

- In the case of focus differentiation, very high prices can be charged. Indeed, these firms often price their goods far above the general, following a differentiation strategy.
- Firms often develop exemplary expertise about the goods and services that they offer in focused strategies. In markets where product knowledge is vital, rivals and new entrants find it difficult to compete with the firms that follow a focus strategy.

### **Disadvantages of the Focused Strategies**

- The limited demand available within a niche is problematic. First, the growth ambitions can get stymied. Once its target market is served well, expansion might be the only way to grow, and this needs a new set of skills.
- The niche could get diluted or be taken over by larger players. For example, many gun stores have gone out of business since Walmart and sporting goods stores have started carrying an impressive array of firearms.

# 21. The Best-Cost Strategy

A best-cost strategy relies on offering customers better value for money by focusing both on low cost and upscale difference. The ultimate goal of the best-cost strategy is to keep costs and prices lower than other providers of similar products with comparable quality and features.

## Challenges of Best-cost Strategy

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Some organizations compete based on offering either low prices or some unique features. Some organizations want both to be effective in their strategy. Firms that offer products or services in low prices and also offer substantial differentiation are said to be following a best-cost strategy.

This strategy is quite difficult to execute as creating some unique features and then communicating the usefulness of these features generally raises the costs of doing business. Product development and advertising are expensive. However, organizations that are able to manage and implement an effective best-cost strategy attain success beyond the ordinary.

### TARGET'S BEST COST STRATEGY

Target follows a best-cost strategy. The firm's products are relatively cheaper among retailers while they are both attracting trend-conscious customers. Target carries products from famous designers, such as Michael Graves, Isaac Mizrahi, Fiorucci, Liz Lange, and others. This is a lucrative position for Target, but the position is currently under attack from all angles.

## Best-cost Strategy and Low Overhead Business Model

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A best-cost strategy can let the organization to adopt a business model with very low fixed costs and overhead in comparison to the costs its competitors are incurring. The Internet has made this possible for some organization.

Amazon, for example, charges lower costs as it does not endure the expenses that "brick and mortar" retailers such as Walmart and Target do in operating. Considered alone, this would be a low-cost strategy but Amazon also offers an unmatched portfolio of goods. This combination makes Amazon the unquestioned e-commerce leader in North America.

Adopting a best-cost strategy by significantly reducing the expenses is also possible. Restaurant operations have significant overhead costs, including rent and utilities. Some intelligent chefs avoid such costs by taking their food to the streets. Food trucks serving high-end specialty dishes at cheaper prices are becoming a popular trend.

### **BEST-COST STRATEGY APPLIED BY FOOD TRUCKS**

When permitted, some cities' food trucks frequently alter position and send out their location for the day (or evening) on Twitter. Apart from keeping costs low, mobile food trucks have another advantage over a traditional restaurant as they can change location to serve more and different clients.

For instance, food trucks sell lunch downtown and afternoon snack near the subway and then move to the nightclub area to sell a late-night snack before the party animals head home.

## Part 6: Aiding Business Level Strategies

## 22. Competitive Moves

Organizations can adopt a number of different strategic moves to create a competitive advantage in its market segment. The ultimate aim is to create a clear and recognizable difference that may be important to the customers, and it should be something which the competitors cannot match.

A competitive advantage can be created by developing a strategy of leadership focusing on operational and functional attributes such as cost, quality, innovation and customer experience. However, PRTM Management Consulting says that an organization should identify the single factor that it is extraordinarily well in and then focus on the right strategy depending on the identified factor.

### **Knowledge**

Various information systems strategy can let an organization have a strong competitive advantage by making it able to capture and share the knowledge of the experts in the company. By utilizing the knowledge-capture software or a secure and dedicated forum on the website, one can ask the experts to contribute the best practice, advice or information on various important business processes. Sharing the knowledge can reduce costs or improve performance and efficiency in the areas of competitive advantage, such as product development, production, engineering and customer service.

### **Cost**

Costs can be an important competitive advantage. By being a low-cost producer, an organization can offer customers the prices that the competitors can't match. Offering low prices while keeping the quality intact can strengthen the competitive advantage further. There are number of strategic moves that can be applied to reduce costs, including making an investment in efficient equipment, outsourcing production to a low-cost producer, or partnering with suppliers to improve the supply-chain efficiency.

### **Innovation**

Innovative strategy offers a competitive advantage by developing goods and services that differentiates the company and meets the customer demands more effectively than competitors. The product development program should focus on features that offer customers some exceptional value or a unique add-on. These innovative features provide a strong advantage due to the fact that competitors find it difficult to imitate these strategies or to offer substitutes of same value.

### **Partnership**

A partnership strategy can also offer competitive advantage. Suitable partners can provide access to strategically important skills, components and/or many other resources that can enable the organization to innovate and differentiate. Integrating the operations with partners in the supply chain area can also aid in getting a competitive advantage. It can provide exclusive access to key supplies and may significantly create barriers to entry for competitors.

## Customer Experience

Forrester Research says that knowledge of customers and providing significantly detailed service are the single most sustainable type of competitive advantage. There are four key areas to consider:

- Customer research;
- Quality of customer experience and customer service;
- Sales channels providing huge customer information; and
- Marketing material using customer information to create significant personalization.

## 23. Competitor's Moves

Apart from choosing operational strategies, organizations also need to decide how to respond to moves made by rivals. Figuring out the reaction, if at all, to a competitor's move is one of the most challenging decisions that a company needs to consider.

There are three factors that determine the response to a competitive move: awareness, motivation, and capability. These three factors in combination determine the level of competition tension that exists between rivals.

The result of a series of moves and countermoves may be difficult to predict and importantly, miscalculations can be costly enough.

### Reacting Quickly

Companies may need to react quickly in case of many situations, such as head-to-head advertising campaigns, price cuts, and attempts to grab key customers. Quick reaction is important. A long delay in response generally provides the attacker with an edge.

PepsiCo, for example, waited fifteen months to copy Coca-Cola's May 2002 introduction of Vanilla Coke. In the meantime, Vanilla Coke got a huge market niche; 29% of US households purchased the beverage by August 2003.

General Electric CEO, Jack Welch, noted in his autobiography, success in most competitive rivalries "is less a function of grandiose predictions than it is a result of being able to respond rapidly to real changes as they occur. That's why strategy has to be dynamic and anticipatory."

### Many Collision Points

Multipoint competition makes it difficult to decide whether to respond to a rival's moves. A firm may face the same rival in more than one market. In case of multipoint competitors, companies must understand that a competitive move in one market can affect others.

A mutual forbearance can make multipoint competition a matter of success. Mutual forbearance occurs when each competitor recognizes that the other can retaliate in multiple markets.

For example, cigarette makers R. J. Reynolds (RJR) and Philip Morris meet in many markets. In the early 1990s, RJR started using lower-priced cigarette brands in the United States. Later, Philip Morris started building market share in Eastern Europe where RJR had been establishing a strong position.

### Reacting to Disruptive Innovation

There are three main responses to disruptive innovation.

First, executives may think that the innovation will not replace established offerings. Thereby, they may choose to focus on traditional modes and ignore the disruption.



Traditional bookstores such as Barnes & Noble did not consider book sales on Amazon to be competitive in the beginning.

Second, an organization can react to the challenge by attacking on a different platform. For example, Apple reacted to direct sales of cheap computers by Dell and Gateway by introducing power and versatility in its products.

Third, possible response is matching the competitor's move. Merrill Lynch had confronted the introduction of online trading by forming its own Internet-based unit.

### **Fighting Brands**

A firm's success can be damaged when a competitor lures the customers away by charging lower prices for its goods or services. The creation of a fighting brand is a move that can prevent this problem. A fighting brand is a low-end brand that tries to protect the firm's market share without damaging the firm's existing brands.

In the late 1980s, General Motors (GM) was confronted with the sales of small, inexpensive Japanese cars in the United States. GM wanted to recapture lost sales, but it did not want to damage existing brands, such as Chevrolet, Buick, and Cadillac, by opting for low-end cars. GM responded with small, inexpensive cars under its new Geo brand.

## 24. Cooperative Moves

While competition is important and unavoidable, cooperation can sometimes be profitable. Cooperative moves may allow organizations to enjoy better success that might be unreachable otherwise. Cooperation enables organizations to share the resources and to benefit from each other's strengths. Cooperative organizations take on risks, including losing control over operations, possible secret leaks, and allowing partners to take advantages.

### **Joint Ventures**

A joint venture is a cooperative and special arrangement between two organizations that involves each contributing to the building up of a new entity. Joint venture partners share decision-making authority, operation control, and profits of the joint venture. Usually, two organizations enter a joint venture to benefit from an opportunity.

In some cases, a joint venture is designed to counter a shared threat. SABMiller and Molson Coors Brewing Company created a joint venture called MillerCoors that combines their beer operations in the United States to better compete against their monstrous rival, Anheuser-Busch.

### **Strategic Alliances**

Strategic alliance is like a joint venture but it does not create a new entity. It is a cooperative arrangement between two or more organizations. Twitter and Yahoo! Japan's strategic alliance lets the two collaborate as opposed to creating a new entity together.

### **Collocation**

Collocation is the offering of goods and services under different brands that are located close to one another. Theatres and art galleries often get clustered together in one neighborhood. Customers get a variety of choices in case of collocation. Moreover, a set of collocated organizations can attract a bigger customer base collectively than the added sum of individual locations.

### **Co-opetition**

Co-opetition is a new concept. Ray Noorda, Novell's founder, coined the term to refer to a blending of competition and cooperation between two organizations. The concept of co-opetition highlights a complex interaction of the two different situations and it is becoming increasingly popular in many industries.

NEC (a Japanese electronics company) has three different relationships with Hewlett-Packard Co.: customer, supplier, and competitor. NEC and Hewlett-Packard are often termed to be in a relationship described as "frienemies"—part friends and part enemies.

### **No Hesitation**

It is easy to become confused by the overwhelming sets of competitive and cooperative moves available. As most of the industries get fast-paced, hesitation can lead to disaster. Sometimes, competition gets transformed into hyper-competition, requiring very rapid and unpredictable moves that can undermine the competitive advantages. Therefore, it is often better to react quickly rather than waiting to take a step after long-timed analysis and hesitation to shake hands.

## Part 7: International Marketing Strategies

# 25. Pros & Cons

Competing in international markets is one of the most important activities for a country's economy. However, as with any other domain of business, there are many advantages and disadvantages of the process.

## Advantages of International Business

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- **Earning valuable foreign currency:** International business enables a country to earn valuable foreign currency by promoting and exporting its goods to other countries.
- **Division of labor:** Competing in international markets leads to specialization in the production of goods. Therefore, quality goods are produced by the best players.
- **Optimum utilization of available resources:** International marketing reduces waste of national resources. Each country tends to make the optimum use of its natural resources.
- **Benefits to consumers:** Consumers become the king due to international business. Better quality goods are available at reasonable prices.
- **Encouragement to industrialization:** In international marketing, the exchange of technological knowledge enables undeveloped and developing countries to establish new industries.
- **Economies of large-scale production:** Production on a large scale becomes the norm because of extensive demand. The advantages of large-scale production become available to all participants on international marketing.
- **Stability in prices of products:** International business diminishes the wide fluctuations in the prices of products. It offers stabilization of prices throughout the world.
- **Widening the market for products:** International marketing expands the market for products all over the world. With increasing scale of operation, the profitability of the business increases.
- **Creating employment opportunities:** International marketing leads to a boost in employment opportunities. It also raises the standard of living of the host countries.

## Disadvantages of International Business

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- **Adverse effects on economy:** One country's illness affects the economy of another country. Also, large-scale exports discourage the development of importing country. Therefore, the economy of the importing country may suffer.
- **Competition with developed countries:** International business hampers the growth and development of developing countries, if international business is not regulated and controlled.
- **Rivalry among nations:** Cut-throat competition and tendency to export more commodities can increase the rivalry between nations. This may interrupt international peace and progress.
- **Colonization:** The importing country may become a colony due to economic and political dependence, and industrial backwardness.
- **Exploitation:** International business may result in exploitation of developing countries by the developed countries. The powerful and dominant economies regulate the economy of poor nations.
- **Publicity of undesirable fashion:** International business may lead to advertisements which may not be suitable for our atmosphere, culture, tradition, etc.
- **Language problems:** Different languages and cultures in different countries create barriers to establish trade agreements.
- **Dumping policy:** Developed countries may start dumping their products to developing countries below the cost of production. As a result, industries in developing countries may get evicted.
- **Adverse effects on home industry:** The survival of infant and nascent industries is endangered due to international business. Unrestricted imports and dumping may lead to collapse of domestic industries.

# 26. Drivers of Success and Failure

If a domestic firm wants to be successful in the international arena, its probabilities of success is shaped by four factors:

- Demand conditions of home country
- Factor conditions of home country
- Related and supporting industries in the home country
- Strategy, structure, and rivalry among the domestic competitors

## Demand Conditions

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The demand conditions talks about the nature of domestic customers. It is often commonly thought that firms benefit when the domestic customers tend to purchase inferior products. It is a faulty belief! Instead of such beliefs, it has been found that firms benefit when the domestic customers have high expectations.

Why do German automakers such as Porsche, Mercedes-Benz, and BMW create excellent luxury and high-performance vehicles? German car buyers value high- end engineering. The car may be just a means of transportation, but in Germany *fahrvergnügen*, which means "driving pleasure" is a popular concept.

## Factor Conditions

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Factor conditions are related with the nature of raw material and other resources that firms need to build goods and services, including land, labor, capital markets, and infrastructure. When the firms have good access to factor conditions they excel, and face challenges when they do not have good factor conditions.

Firms in the United States, for example, have plentiful natural resources, a skilled labor force, advanced transportation systems, and sophisticated capital markets to be successful. Chinese manufacturers have been benefited in part by the availability of cheap labor.

## Related and Supporting Industries

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Supporting industries denote the extent to which the firms' domestic suppliers and other related industries are developed and helpful. Italian shoemakers such as Salvatore Ferragamo, Prada, Gucci, and Versace benefit from the availability of top-quality leather in the home country. In case, these shoemakers need to depend on imported leather, they would lose the advantage.

## **Firm Strategy, Structure, and Rivalry**

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The concept of firm strategy, structure, and rivalry talks about how challenging it is to survive the domestic competition. Companies that survive intense rivalry in the home markets, they are likely to have developed strategies and structures for competing in international markets. Hyundai and Kia had to keep pace with each other within the South Korean market before expanding overseas.

If, in contrast, domestic competition is very feeble, a company can have high profits within its home market. However, the lack of competition means the firm will have to struggle to reach its potential in creativity and innovation. This decreases the firm's ability to compete overseas.



# 27. International Strategies - Types

An international organization can use a number of business strategies, based on its situation. New organizations will face different challenges than organizations that are old. Therefore, the strategies they implement are often different from the ones of key competitors.

There are mainly four types of business strategies an organization may choose from.

## **Growth Strategy**

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A growth strategy refers to adding new products or finding and implementing new features to existing products. Sometimes, an organization may be compelled to modify or increase its product line to fight with its competitors. Otherwise, customers may shift to a new technology of a competitive company. For example, mobile phone companies need to keep adding new features or discovering new technology. Those who do not keep up with consumer demand will go out of business soon.

A growth strategy can also be implemented by finding a new market for the company's products. Sometimes, it can happen by accident. For example, a consumer soap manufacturer may discover that industrial workers prefer its products to others. Hence, apart from selling the soap in retail stores, the company should ship the soap in larger containers for factory and plant workers.

## **Product Differentiation Strategy**

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Product differentiation strategy can give a competitive advantage to companies, such as superior quality or service. For example, an air purifier manufacturer may differentiate from competitors with a superior engineering design. Product differentiation strategy is usually used to set oneself apart from key competitors. It is found that product differentiation strategy can also help a company build brand loyalty.

## **Price-Skimming Strategy**

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A price-skimming strategy refers to charging higher prices for a product in comparison to competitors, especially during the introductory phase. A company may use a price-skimming strategy to quickly derive its production and advertising costs. However, there must be something special about the product.

For example, a company may introduce a new type of solar panel. If the company is the only one that is selling the product, customers may pay the higher price.

One disadvantage of this strategy is that it attracts competition relatively quickly. Enterprising individuals who have technological knowledge may see the high profits the company is reaping and launch their own products.

## Acquisition Strategy

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An organization with enough capital may use an acquisition strategy for competitive advantage. Purchasing another company or one or more product lines of another company is the major policy in such a kind of strategy. For example, Facebook's acquisition of WhatsApp is a part of Facebook's acquisition and growth strategy.

# 28. International Markets - Competition

There are five basic options for competing in international markets. These are (1) exporting, (2) creating a wholly owned subsidiary, (3) franchising, (4) licensing, and (5) creating a joint venture or strategic alliance. The option to choose depends on how much control a firm wants to have over its operation, the amount of risk involved, and the share of the operation's profits the firm gets to keep.

## Exporting

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Exporting includes producing goods in the home country and then shipping them to another country. Once the products reach the foreign shores, the exporter's role is over. A local firm then sells the goods to local customers.

Once the exported products are found to be available in a given country, exporting often becomes undesirable. An exporting firm loses control of the management and operation of goods' sales once they are turned over to a local firm for sale. Also, an exporter earns money when it sells its goods to a local firm, but it cannot get any profit when the end users buy the goods. Exporting is the easiest way of entering an international market but risky too.

## Wholly Owned Subsidiary

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A wholly owned subsidiary is a new business in a foreign country owned by the foreign firm. It can be a greenfield venture, meaning that the organization builds up the entire operation itself. The other possibility is purchasing an existing operation.

Having a wholly owned subsidiary is an attractive option as the firm has complete control over the operation and gets all the profits. It can be quite risky, however, as the firm must pay all of the expenses required to set it up and operate it.

## Franchising

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Franchising involves a firm (franchisor) granting the rights to use its brand name, products, and processes to other firms (franchisees) in lieu for a fee (a franchise fee) and a pre-set percentage of franchisees' revenues (a royalty fee).

Subway, The UPS Store, and Hilton Hotels are just a few of the firms that have done so. Franchising is an easy and attractive way to enter foreign markets because it needs little financial investment by the franchisor. On the downside, the franchisor firm gets only a small portion of the profits made under its brand name. Also, local franchisees may operate against the franchisor.

## Licensing

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Licensing includes permitting a foreign company the right to produce a company's product within a foreign country in return for a fee. The products are usually produced using a patented technology.

The firm that grants a license avoids many types of costs, but also the profits are limited. The firm also loses the control over use of its technology.

## Joint Ventures and Strategies Alliances

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In a Joint Venture (JV), the participating organizations contribute to the creation of a new entity. In such an arrangement, organizations work cooperatively, but a new organization is not created. The firm and its partner shares decision-making, control over the operations, and the profits.

JVs are especially attractive when a firm thinks that working closely with locals will provide it important knowledge, enhance acceptance by government officials, or both.

The Hero-Honda automobile firm was a JV between Hero of India and Honda, a company from Japan.

## Part 8: Corporate Level Strategies

# 29. Concentration Strategies

Concentration strategies are meant to compete in one, single industry. There are four sub-strategies of concentration strategies: (1) market penetration, (2) market development, (3) product development and (4) horizontal integration. However, an organization can use one, two, or all aspects of these strategies to try to excel within an industry.

## Market Penetration

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Market penetration means gaining additional share of an organization's existing markets by utilizing existing products. Advertising is a major way to attract customers within the existing markets.

Nike features popular and known athletes in print and television ads to snatch market share within the athletic shoes business from rivals Adidas and Lotto.

## Market Development

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Market development means to sell existing products in new markets. A popular way to reach a new market is by entering a new retail channel.

Kicking Horse Coffee, based in a remote town of Invermere, B.C., sells only organic fair trade coffee and Indian chai. It has been a mainstay of the town since the company started in 1996. Invermere is now the base for the 8400 m<sup>2</sup> production facility.

## Product Development

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Product development involves building and selling new products to already existing markets. In the 1940s, Disney developed its products within the film business venturing out of cartoons and creating movies featuring real actors.

In 2009, Starbucks introduced VIA, an instant coffee variety for customers when they do not have easy access to a Starbucks store or a coffeepot. Now many blends of Starbucks coffee and Tazo tea are widely available in markets in the popular one-cup format.

## Horizontal Integration

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Expanding by acquiring or merging with one of the rival organizations is known as horizontal integration.

An **acquisition** occurs when an organization buys another organization. Generally, the acquired organization is smaller than the buyer organization.

A **merger** joins two companies into one. Mergers occur with similar sized companies.

Horizontal integration is preferable and attractive for many reasons. Horizontal integration may lower costs by gaining a greater economies of scale. Fitting horizontal integration alongside Porter's five forces model, it means that such moves also reduces the intensity of rivalry and can make the industry more profitable.

Horizontal integration can also offer new distribution channels, where a firm may produce or acquire production units that are similar—either complementary or competitive.

#### **HORIZONTAL INTEGRATION: AN EXAMPLE**

In 1989, Kraft's parent company merged Kraft and General Foods. In 2000, Kraft bought Nabisco Holdings, and in 2009 bought Cadbury for about US\$19 billion, making Kraft a "global confectionery leader." At the time, Cadbury was the second-largest confectionery brand in the world after Wrigley's.

# 30. Vertical Integration Strategies

**Vertical integration** (VI) is used strategically to gain control over the industry's value chain. The important issue to consider is, whether the company participates in one activity (one industry) or many activities (many industries).

For example, a company may choose that it only manufactures its products or would get involved in retailing and after-sales services too. Two issues have to be considered before integration:

- **Costs** - An organization must integrate vertically when costs producing inside the company are less than the costs of availing that product in the market.
- **Scope of the firm** – It is necessary to think over the fact, whether moving into new industries would not dilute its current competencies. New activities are often harder to manage and control. These factors contribute to a decision if a company will pursue none, partial or full VI.

## Types of Vertical Integration

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There are usually two types of VI:

### Forward Integration

Engaging in sales or after-sales industries for a manufacturing company, it is a forward integration strategy. This strategy is used to achieve higher economies of scale and larger market share. Forward integration strategy is boosted by internet. Many companies have built their online stores and started selling their products directly to consumers, bypassing retailers.

Forward integration strategy is effective when:

- Few quality distributors exist in the industry.
- Profit is high for distributors or retailers.
- Distributors are very expensive, unreliable or unable to offer quality service.
- The industry is going to grow significantly.
- Stable production and distribution is possible.
- The company has vast resources and capabilities to manage the new business.

### Backward Integration

If a manufacturing company starts creating intermediate goods for itself or buys its previous suppliers, it is a backward integration strategy. It is used to secure stable input of resources and become more efficient.



Backward integration strategy is most beneficial when:

- Existing suppliers are unreliable, expensive or unable to provide the required inputs.
- Only a few small suppliers but several competitors exist in the industry.
- Industry is in rapid expansion mode.
- Price and inputs become unstable.
- Suppliers earn very high profit margins.

A company has the needed resources and capabilities to maintain the new business.

### **Advantages of VI Strategy**

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- Lower costs as market transaction costs are diminished.
- Greater quality of supplies.
- VI can make critical resources available.
- Better coordination in supply chain becomes possible.
- Provides a bigger market share.
- Secured distribution channels.
- It enhances investment in specialized assets (site, physical-assets and human-assets).
- New competencies.

### **Disadvantages of VI Strategy**

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- Higher costs, in case, the company cannot manage new activities efficiently.
- May lead to lower quality products and reduced efficiency as competition recedes.
- Reduced flexibility due to increased bureaucracy and higher investments.
- Higher potential for legal repercussion due to size.
- New competencies and old ones may collide and lead to competitive disadvantage.

# 31. Diversification Strategies

Diversification strategies are used to extend the company's product lines and operate in several different markets. The general strategies include concentric, horizontal and conglomerate diversification.

Each strategy focuses on a specific method of diversification. The concentric strategy is used when a firm wants to increase its products portfolio to include like products produced within the same company, the horizontal strategy is used when the company wants to produce new products in a similar market, and the conglomerate diversification strategy is used when a company starts operating in two or more unrelated industries.

Diversification strategies help to increase flexibility and maintain profit during sluggish economic periods.

## Warren Buffet on Diversification

**"Diversification is protection against ignorance, it makes little sense for those who know what they're doing."**

## Concentric Diversification

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A concentric diversification strategy lets a firm to add similar products to an already established business. For example, when a computer company producing personal computers using towers starts to produce laptops, it uses concentric strategies. The technical knowledge for new venture comes from its current field of skilled employees.

Concentric diversification strategies are rampant in the food production industry. For example, a ketchup manufacturer starts producing salsa, using its current production facilities.

## Horizontal Diversification

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Horizontal diversification allow a firm to start exploring other zones in terms of product manufacturing. Companies depend on current market share of loyal customers in this strategy. When a television manufacturer starts producing refrigerators, freezers and washers or dryers, it uses horizontal diversification.

A downside is the company's dependence on one group of consumers. The company has to leverage on the brand loyalty associated with current products. This is dangerous since new products may not garner the same favor as the company's other products.

## **Conglomerate Diversification**

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In conglomerate diversification strategies, companies will look to enter a previously untapped market. This is often done using mergers and acquisitions.

Moving into a new industry is highly dangerous, due to unfamiliarity with the new industry. Brand loyalty may also be reduced when quality is not managed. However, this strategy offers increasing flexibility in reaching new economic markets.

For example, a company into automotive repair parts may enter the toy production industry. Each company allows for a broader base of customers. There is an opportunity of income when one industry's sales falter.

# 32. Downsizing Strategies

Companies often need to downsize themselves to be lean and compete better against stiff competition. The idea is to make a more productive company incur lesser costs. There are mainly two major ways to downsize, known as Retrenchment and Restructuring.

## Retrenchment

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In the early 20th century, battles in World War I, occurred in series of parallel trenches. If an attacking army forced the enemy to abandon a trench, the defenders used to move back to the next trench. The handy adjustments were far more preferable to losing the battle completely. Retrenchment, a popular business strategy now, owes its origin to this trench warfare. Firms that follow retrenchment strategy generally shrink one or more business units.

Retrenchment is accompanied often by laying off employees. This reduces the overall cost of management and provides a better way to manage the employees more productively. This type of strategy is best applicable to a saturated and low margin market such as groceries where retailers look to add non-food merchandise to their stocks to improve the bottom line.

## Restructuring

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Some better and more effective strategies are needed for some firms to survive and become successful in the future. **Divestment** means selling off a portion of the firm's operations. Sometimes, divestment usually reverses a forward vertical integration strategy, such as in the case where Ford sold Hertz. Divestment can also lead to reverse backward vertical integration.

General Motors (GM), once turned their parts supplier, called Delphi Automotive Systems Corporation, from the original GM subsidiary into a newly formed and independent firm. This was done via a spin-off, which includes creating a completely new company the stock of which is owned by investors. This often accompanies stock splits for large companies.

Divestment can also help the company to undo diversification strategies. Firms that have engaged in unrelated diversification find the diversification strategies more useful. Investors, however, often find it complex to understand the process of diversified firms, and this can result in relatively poor performance by the stocks of such firms. This is called **diversification discount**.

Executives sometimes break up diversified companies to derive the stock value. Sometimes, the operations of a firm have no value at all. When sale of a part of business is not possible, the best option may be **liquidation**. In liquidation, the parts that generate no value are simply shut down, often at a tremendous financial loss.

GM has liquidated its Geo, Saturn, Oldsmobile, and Pontiac brands. Such moves are painful as large portions of investments have to be written off, but becoming "leaner and meaner" may at least save the company from becoming obsolete.

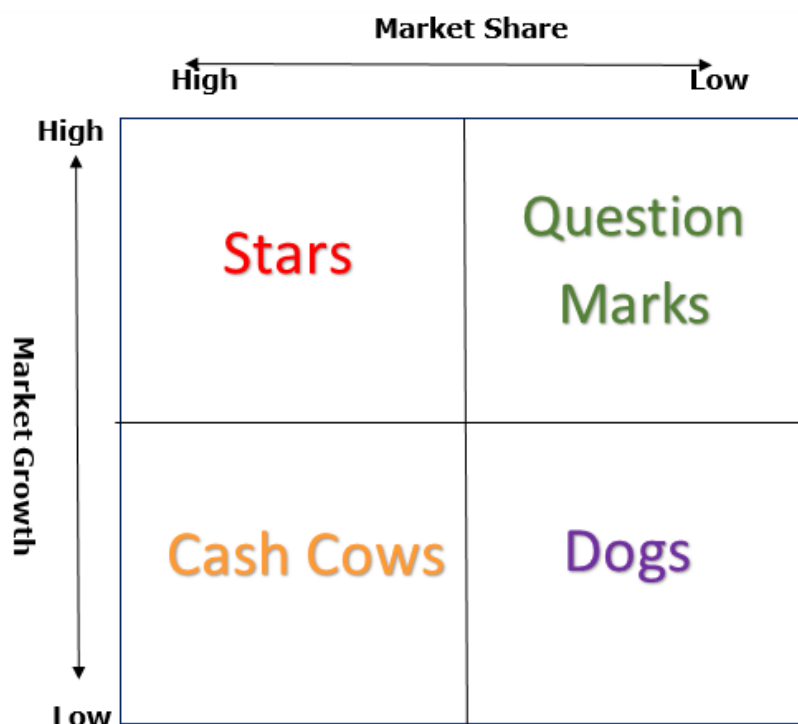
# 33. Portfolio Planning

**Portfolio planning** is a very useful tool. It is the method that helps the company executives to assess their firms' prospects for a winning share within each of its industries. It also offers suggestions about what to do within each industry, and lets the managers have ideas on how to allocate resources across industries. Portfolio planning determines the company's position within the industry.

The management in charge of large firms that are involved in many different businesses must find out how to manage such portfolios. For example, General Electric (GE) has a very wide variety portfolio of industries, including financial services, insurance, electricity generation, light bulbs, television, theme parks, robotics, medical equipment, railroad locomotives, and aircraft jet engines. GE executives, therefore, must make a decision about which units to grow, the ones to shrink, and the ones that needs to be abandoned.

## The Boston Consulting Group (BCG) Matrix

The Boston Consulting Group (BCG) matrix is the most popular approach to portfolio planning. The matrix categorizes a firm's businesses as high or low along two dimensions: the market share and the growth rate of its industry.



**The BCG Matrix**

The high market share units that have a slow-growth industry are called **cash cows**. As their industries have quite bleak prospects, profits generated from cash cows should not be invested back into cash cows but rather they should be diverted to more promising businesses.

Low market share units that fall within slow-growing industries are called **dogs**. These units are good for divestments.

High market share units that fall within fast-growing industries are known as **stars**. These units have very bright prospects and thus are considered good candidates for growth.

Low market share units that fall within fast-growing industries are called **question marks**. These units can either be converted into stars or divested.

The BCG matrix is not the only one portfolio planning technique. GE has developed the attractiveness-strength matrix to examine its portfolio of diverse activities. This planning technique involves rating each of the firm's businesses in regard to attractiveness and the firm's strength within the industry. Each dimension is usually divided into three categories that result in nine boxes. Each of these boxes have a given set of recommendations related with it.

## Limitations of Portfolio Planning

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Portfolio planning is a useful tool, but has important limitations.

- Portfolio planning usually oversimplifies the practical reality of competition by focusing only on a pair of dimensions while analyzing the company's operations within an industry. There are importance of many dimensions to consider while making strategic decisions, hence two are not enough.
- Portfolio planning is a useful tool but it can lead to motivational problems among employees. For example, if workers readily know that their firm is classified as a dog, then they may give up pushing ahead and lose all hope for the future.
- Portfolio planning does not identify any new scope. This tool only deals with existing businesses.

## Part 9: Strategy and Organizational Design

# 34. Organizational Structure

The framework which companies use to figure out their management authority, and internal and external communication processes is known as organizational structure. The structure includes policies, duties and responsibilities of each and every individual in the organization. Organizational structure is influenced by several factors, both internal and external. Business owners are responsible for creating the organizational structure framework of their company.

## Size

Size is one of the driving factors for a company's organizational structure. Smaller businesses do not need a vast structure but larger business organizations generally require a more intense framework.

Companies require more managers for supervising employees if the employee base is large. Highly specialized businesses require a more formal and specialized organizational structure.

## Life Cycle

The company's life cycle affects the development of an organizational structure. Business owners who usually tend to grow and expand their operations develop an organizational structure to outline their business mission, vision and goals.

Businesses that reach peak performance generally have a detailed and more mechanical organizational structure. This occurs due to the fact that chain of command goes on increasing from the top to bottom. Organizational structure can also be a tool to improve efficiency and profitability. Such improvements may be required as more competitors enter the marketplace.

## Strategy

Business strategies influence the development of organizational structure. High-growth firms generally have smaller organizational structures to quickly adapt to changes in the business environment. Business owners are often reluctant to reduce managerial control in operations.

Smaller firms looking to illustrate their business strategy may usually delay creating an organizational structure. Business owners are found to be increasingly interested in setting business strategies rather than creating an internal business structure.

## Business Environment

The external business environment affects the organizational structure of the company. Dynamic environments having rapid and constantly changing consumer behavior are often more turbulent and shaky than stable environments.

Companies that seek to address the consumer demands can struggle while creating an organizational structure in a rapidly changing and dynamic environment. More time and capital can also be spent in dynamic environments.



# 35. Creating an Organizational Structure

A good organizational structure allows its workers to focus on creating quality products and awesome services. Productive organizations offer opportunities to its employees to create and use new skills. This allows constant improvement in business operations and ensures that the company maintains an edge to sustain in a dynamic global marketplace. Following are the steps to keep in mind while creating an organizational structure:

**Step 1** - Analyze the plans, policies and procedures. Structure the management framework to help make efficient production processes. Align the various group's performance goals with the company's strategic objectives. Develop and/or revise the organization's mission, vision and goals. Keep account of social and economic changes taking place in the external environment.

**Step 2** - Keep record of and document the company's hierarchical structure and do not forget to publish it on the company's website, via email or in print form. This helps everyone in the company to see the reporting structure, the roles and responsibilities.

**Step 3** - It is wise to utilize the resources provided by the Society of Human Resource Management website to learn and keep track of industry trends. Ensure that the business adheres to the rules and regulations, such as annual leave laws or hours of rest required.

**Step 4** - Annual survey is an important part. Initiate anonymous response by the employees to gauge environment support for employees. A survey allows to measure employee perceptions about the company and its operations. Annual surveys can let one compare results from year to year.

**Step 5** - Identify the areas that need fast improvement to keep an organization healthy and safe for workers. Online tools, such as the Mind Tools Problem Solving Techniques website, can help you create cause and effect diagrams to identify problems.

**Step 6** - Employees should be motivated to adapt to change by communicating regularly. Make sure that all of the employees respect and support the people around them. Facilitate cultural diversity, handle workplace conflict and respond to time management policies. Professional development can also enable employees to act and react appropriately in case of turbulences.

**Step 7** - Encourage employees to share their skills and knowledge. Make meaningful connections with people who may not work in the same location.

**Step 8** - Allow personnel to receive knowledge and mentoring to further their careers. A good organization recognizes and motivates for value of individual achievements. By providing feedback and advice, new personnel can be inspired to take on additional responsibilities.

**Step 9** - Encourage performance-based management. Evaluation of employees depending on their ability to achieve their own goals affirm their personal accountability. By retaining and nourishing motivated employees, the company can keep its competitive edge intact.

**Step 10** - Use professional and personal skills development programs to help the employees to do their jobs better. Encourage the employees to enroll in and clear performance related exams linked with professional credentials.

# 36. Organizational Control Systems

Organizational control is important to know how well the organization is performing, identifying areas of concern, and then taking an appropriate action. There are three basic types of control systems available to executives: (1) output control, (2) behavioral control, and (3) clan control. Different companies opt different types of control, but many organizations use a mix of all of these three types.

## Output Control

Output control zeroes in on measurable outcomes within an organization. In output control, executives must decide the acceptable level of performance, communicate the general expectations to the employees, track whether the performance values meet the expectations, and then make any needed changes.

## Behavioral Control

Behavioral control generally focuses on controlling the actions unlike the results in case of output control. In particular, specific rules and processes are used to structure or to dictate behavior. For example, firms having a rule that requires checks to be signed by two people to try to prevent employee theft.

## Clan Control

Clan control is a non-standardized type of control. It depends on shared traditions, expectations, values, and norms. Clan control is common in industries where creativity is vital, such as many high-tech businesses.

## Management Fads

There are many management fads that have been closely tied to organizational control systems. **Management by objectives (MBO)** is a procedure wherein managers and employees work together to create and attain goals. These goals help the firm guide employee behavior and serve as benchmarks for measuring their performance.

A **quality circle** is a formal employee group that often meets regularly to brainstorm various solutions for organizational problems. As the name "quality circle" suggests, finding out behaviors that would help to improve the quality of products and/or the operations management procedures that create the products was the formal charge of this circle.

**Sensitivity training groups (or T-groups)** were used in many organizations in the 1960s. It involved approximately eight to fifteen people coming together to openly discuss their emotions, feelings, beliefs, and biases about workplace issues. It did not have the rigid nature of MBO, but the T-group involved free-flowing conversations. These discussions lead individuals to nurture a greater understanding of themselves and others. The expected results included enlightened workers and a far more mutual understanding, and a better teamwork.

## 37. Legal Forms of Business

There are mainly three types of business organization in terms of law. While the required legal processes and needed documents differ in case of each form of business, all of these types of businesses are usually aimed at being profitable in the short and long term.

**Sole trader** businesses are the easiest to set up as the business and the owner are the same person in law. The sole trader doesn't have any limited liability, meaning that they are responsible for all the debts incurred while doing business. The sole trader needs to create an annual accounting return that shows the income and losses apart from profits and taxes payable.

**Partnership** businesses are set up by a Deed of Partnership which is a document created by the partners having a witness (a solicitor). This deed illustrates the legal relationship between partners, e.g. profit sharing, responsibilities of partners etc.

In traditional partnerships, the partners usually have an unlimited liability, i.e. they are jointly responsible for the debts of the business. Some partnerships, such as accountancy firms can have limited liability.

**Companies** are separate entity in law from the shareholders of the business. This means that the shareholders are only responsible for these debts that go up to the sum they have contributed to the company. Companies Act sets out the ways in which companies should conduct their affairs.

Various documents must be registered at Companies House including a Memorandum and Articles of Association illustrating the internal relationships within the company, and the general external relationships with third parties. A public company can only sell shares on the Stock Exchange after having all the required paperwork done.

A private company never sells the shares to the wider public. The shares are traded with the permission of the Board of Directors. In contrast, a public company sells shares to all through the Stock Exchange. A private company usually has Ltd. after its name while a public company has PLC.

Public companies are bound to have an Annual General Meeting of shareholders. The Companies Act provides the power and responsibility of its directors. Public companies must produce an annual report and statement of accounts apart from other responsibilities. Paperwork associated with setting up a public company is far more complex than a private company.

## Part 10: Strategic HR Management

# 38. Growth & Nature

Strategic human resource management aims to aid the companies in meeting employee needs. Human resource management or HRM is concerned with training, benefits, hiring and firing, pay and administration issues. The HR department also offers vacations and sick days, safety procedure information and work incentives.

## Role of Strategic HRM

Strategic HRM develops the human resource capital of a company. It mainly focuses on the long-term human issues of an organization and helps to create an organizational structure to adapt to changes like mergers, downturns and acquisitions. Strategic HRM also deals in emphasizing on application and betterment of the ethical issues, apart from managing the effects that the business processes are going to have on the society at large.

Strategic HRM includes:

- **Strategies for Organizational Leadership** - Leaders and corporate executives play a pivotal role in achieving the goals of the organization. The selection and management of organization heads and executives is done by the HR department. Therefore, HRM plays a key role in aiding the business goals of the organization.
- **Strategies for Talent Growth** - Human capital talent is by far the most important asset of the organization. It is the job of the human resource management for retaining and recruiting the best talent. Continuous development and training of the employees is also a major duty of HRM.
- **Strategies for Promotion of High Performance** - Defining the performance measures is an important part of success of an organization. The workplace behavior has a major impact on the failure or success of an organization. HRM strategies are meant to offer the leaders an opportunity to come up with an organizational culture.
- **Planning Strategies** - Strategic planning is the prime reason for success of an organization. Strategic HRM is extremely important for laying the foundations of strategic planning. HRM plays a big role in retaining top talent and determining the satisfaction of customers via employee satisfaction measurement processes.

Strategic HRM deals in:

- **Human Resource Planning** - Small companies lack the resources in comparison to larger companies. HR managers must plan well according to budget and availability of resources. Instead of the benefit and training programs in smaller companies, it should offer an on-site training program for the employees.

- **Employee Development** - Employee development is an important part of strategic human resource management. It starts with new employees' recruitment. It is important to eliminate the applicants that are not suitable for the company.
- **Employee Training** - Effective mentoring and training program is important in building up and orientating the new employees. Companies must make use of coaching, regular assessment and continual training programs to improve employee performance.
- **Improving Employee Performance** - HR department that focuses on the development of the human capital of the company is a very essential part of an organization. It helps in improving employee satisfaction and performance.

# 39. Organizational & HRM Strategy

Linking the organization's HR strategy to the organizational strategy makes good business sense for a number of reasons.

## **Strategic Alignment of HR**

HR executives are sometimes left to deal with only administrative functions, such as recruitment, performance measurement, training and compensation. These processes are important, but on their own, they don't show how an organization should plan for the human resources to deliver on its plans and ambitions. Empowering the HR department may add value to the organization's business strategy as it undertakes the functional activities in a manner that supports growth and success.

## **Delivering the Strategy**

An effective HR strategy that has clear links to the business strategy can enhance the organization to align its activities better with its human resources. An HR department that understands the demands of your business strategy can help the organization stay on track.

## **Effective Training and Development**

Organizations are affected by many external and internal factors that can change the nature of individual job roles and need for skill sets. An HR strategy linked to the organizational strategy is better placed to anticipate any such change.

## **Improved Recruitment and Retention**

Employees who are supported and trained in their jobs tend to be happier and more productive. Moreover, organizations with a positive reputation face fewer hurdles to effective recruitment. These factors are important elements in understanding why HR strategy must link to organizational strategy.

## **HR Drives Strategy**

HR strategy is at the center of an organization's overall capacity and capability. Having a clear concept of the employees and their different skills can help an organization have the required development and growth. Organizations see HR as a key driver of strategy and integral to their future success.



# 40. Impact of HRM on Performance

The idea of organizational performance includes both the 'What' and 'How' of achievement. There are various means to measure firm's performance, such as key performance indicators (KPIs), which are usually to do with financial results (profitability) or productivity. Measuring the "how" is more difficult as it relies on qualitative aspects of assessment of effectiveness.

The following four factors are the most important reasons why HRM should be linked with organizational performance:

## **Roles**

People should have a clear idea of their as well as the roles of others in an organization. Every successful team has well-defined position for its members. Everyone is aware of what he or she has to do, how to do it and how their performance can affect the organization.

In business, this means you need to have clear reporting structure. It is the duty of HRM to define and set rules for employees.

## **Rules**

Having a clear set of behavioral expectations is important to establish that you're not contributing to the bad behavior as an employer. Setting clear and specific rules establishes a framework for spotting and addressing violations of behavioral standards.

Loosely defined general standards lead to violations. The result of such ambiguousness is often litigation. HRM plays a key role in defining the company standards and minimizing violations.

## **Consequences**

It's necessary to clearly state the consequences for violations of behavioral standards. In addition, clear consequences help to ensure that options for dealing with violations are not limited. To establish the standards and violation consequences, it's essential to know ahead of time what employee actions require an immediate dismissal.

The HR is responsible for drawing these fine lines. Similarly, HR managers know what performance issues may qualify for a more progressive disciplinary approach, and they define the steps involved in such an approach. HRM thus plays a disciplinary role as well, which is indispensable for organizational performance.

## **Tools**

Tools are vital not just to help avoid litigation, but also to diminish the duration of time it takes for the owner to deal with non-productive people issues instead of core business processes. Many small-business owners use attorneys and HR consultants on an a la carte basis to address such issues.

Whatever the approach, the key to success is to devote the time and resources it takes to develop a policy and practices strategy for your business. It is wise to invest in people of the organization because they build the organization. It's an investment that can provide huge dividends in terms of increased productivity and minimized litigation. Nonetheless, it is an essential component of your comprehensive people strategy and HRM is responsible for overall nurture and growth of this domain.